



NGQUSHWA LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2015

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

GENERAL INFORMATION

LEGAL FORM OF ENTITY

Local Municipality

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

Ngqushwa is a Local Municipality rendering basic services such as refuse collection, Infrastructure Development, Economic Development Community Services, etc.

EXECUTIVE COMMITTEE

Ndwayana S.E. (Mr) (Mayor)
Jowela Z. (Mr) (Speaker)
Gqadushe Z. (Ms) (Chief Whip) Deceased
Cuka L. (Ms) (Member of Executive Committee)
Faltein M. (Mr) (Member of Executive Committee)
Siwisa T. (Mr) (Member of Executive Committee)
Tele N. (Ms) (Member of Executive Committee)

Councillors

Boqwana M. (Mr)
Coto N. (Ms)
Dyani T.M. (Ms)
Dyibishe T.G. (Ms)
Gxasheka N.C. (Ms)
Jali S. (Mr)
Magazi T. (Mr)
Maphekula N.N.C. (Ms)
Mapuma M. C. (Mr)
Mtanga N. (Ms)
Mtshakazi A. (Mr)
Ndabazonke N. (Ms)
Ndanda A. (Mr)
Ntonjane M. G. (Mr)
Sethuntsa M. B. (Mr)
Seysman N. A. (Ms)
Sithole P. (Ms)
Tusani T. (Mr)
Yolelo M. G. (Mr)
Matomela B. (Chief)
Zitshu G.L. (Prince)
Mhlauli N (Prince)
Njokweni NV (Princess)

Traditional Leaders

GRADING OF LOCAL AUTHORITY

3

CHIEF FINANCE OFFICER (CFO)

V. C. Makedama (Mr)

ACCOUNTING OFFICER

T.T.Mnyimba (Mr)

REGISTERED OFFICE

Peddie
Corner of N2 and R345 Road
Peddie
5640

BUSINESS ADDRESS

Corner of N2 and R345 Road
Peddie
5640

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

GENERAL INFORMATION

POSTAL ADDRESS

P.O Box 539

Peddie

5640

BANKERS

First National Bank

AUDITORS

Auditor-General South Africa

CONTACT DETAILS

Email: tmnyimba@ngqushwamun.gov.za

Telephone: 040 6733 095

www.ngqushwamun.gov.za

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

INDEX

The reports and statements set out below comprise the annual financial statements presented to the Council:

INDEX	PAGE
Accounting Officer's Responsibilities and Approval of Financial Statements	4
Statement of Financial Position	5
Statement of Financial Performance For The Year ended 30 June 2015	6
Statement of Changes in Net Assets for the Year ended 30 June 2015	7
Statement of Cash Flows for the Year ended 30 June 2015	8
Statement of Comparison of Budget and Actual Amounts	9 - 11
Accounting Policies	12 - 26
Notes to the Annual Financial Statements	27 - 59

The Supply Chain Management Deviation register which is included as supplementary information does not form part of the annual financial statements and is unaudited.

ABBREVIATIONS

AFS	Annual Financial Statements
DORA	Division of Revenue Act
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Standard of Generally Recognised Accounting Practice
HRM	Human Resource Management
UIF	Unemployment Insurance Fund
MFMA	Municipal Finance Management Act 56 of 2003
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
PMS	Performance Management System
PMU	Project Management Unit
SARS	South African Revenue Services
SPU	Special Programs Unit
VAT	Value Added Tax

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL OF FINANCIAL STATEMENTS

The accounting officer is required by the Municipal Finance Management Act No.56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB).

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the Municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the Internal Control Framework sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Municipality and all employees are required to maintain the highest ethical standards in ensuring the Municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Municipality is on identifying, assessing, managing and monitoring all known forms of risk across the Municipality. While operating risk cannot be fully eliminated, the Municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, that based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatements or deficiencies.

The accounting officer has reviewed the Municipality's cash flow forecast for the year to 30 June 2016 and, in light of this review and the current financial position, he is satisfied that the Municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the Municipality's annual financial statements. The annual financial statements set out on pages 5 to 59, which have been prepared on the going concern basis, were noted by the Council on 26 August 2015 and were signed on its behalf by:


T. T. Mnyimba
Municipal Manager

Date

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

	Note(s)	2015 R	2014 R
ASSETS			
Current Assets			
Inventories	3	268,800	268,800
Operating Lease Assets	4	27,047	5,370
Receivables from Exchange Transactions	5	2,688,444	2,002,250
Receivables from Non-Exchange Transactions	6	11,847,192	10,358,549
VAT Receivable	7	8,514,817	4,134,656
Cash and Cash Equivalents	8	163,631	8,618,347
		23,509,931	25,387,972
Non-Current Assets			
Investment Property	9	37,976,900	37,976,900
Property, Plant and Equipment	10	146,434,014	143,877,999
Intangible Assets	11	965,517	1,206,634
Heritage Assets	12	2	2
		185,376,433	183,061,535
Total Assets		208,886,364	208,449,507
LIABILITIES			
Current Liabilities			
Finance Lease Obligation	13	4,121,498	2,830,880
Payables from Exchange Transactions	14	35,289,551	32,171,496
Payables from Non-Exchange	15	2,235,375	2,520,191
Unspent Conditional Grants	16	53,285	5,571,054
		41,699,709	43,093,621
Non-Current Liabilities			
Finance Lease Obligation	13	3,175,357	5,816,722
Provisions	17	2,490,811	2,025,190
		5,666,168	7,841,912
Total Liabilities		47,365,877	50,935,533
NET ASSETS		161,520,487	157,513,974
Accumulated Surplus		161,520,487	157,513,974

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2015 R	2014 R
REVENUE			
Revenue from exchange transactions			
Service Charges	18	535,518	526,078
Rental of Facilities and Equipment	19	131,424	100,898
Interest Received - Outstanding Receivables		2,436,854	1,534,749
Agency Services		334,015	282,282
Licences and Permits		1,675,561	1,716,645
Other Revenue	20	208,518	201,753
Interest Received - Investments		820,414	746,275
Total revenue from exchange transactions		6,142,304	5,108,680
Revenue from non-exchange transactions			
Property Rates	21	10,721,838	10,465,180
Government Grants	22	106,300,775	97,192,354
Fines and Penalties		146,941	579,850
Other Transfer Revenue		59,363	112,936
Total revenue from non-exchange transactions		117,228,917	108,350,320
Total revenue		123,371,221	113,459,000
EXPENDITURE			
Employee Related Costs	23	44,968,112	40,463,034
Remuneration of Councillors	24	8,169,214	7,640,221
Depreciation and Amortisation	25	20,065,022	17,537,186
Finance Costs	26	1,501,326	629,312
Debt Impairment	27	12,668,222	10,514,045
Repairs and maintenance	28	957,132	3,786,572
Contracted services	29	-	1,315,747
General Expenses	30	30,638,770	38,612,178
Total expenditure		118,967,798	120,498,295
Operating surplus (deficit)		4,403,423	(7,039,295)
Loss on disposal of assets		-	(381,374)
Fair value adjustments		-	(66,200)
			(447,574)
Surplus (deficit) for the year		4,403,423	(7,486,869)

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets for the Year ended 30 June 2015

	Accumulated Surplus R	Total net assets R
Opening balance as previously reported	166,938,680	166,938,680
Adjustments		
Prior year adjustments	(1,937,835)	(1,937,835)
Balance at 01 July 2013 as restated*	165,000,845	165,000,845
Changes in net assets		
Deficit for the year	(7,486,871)	(7,486,871)
Total changes	(7,486,871)	(7,486,871)
Balance at 01 July 2014	157,513,974	157,513,974
Changes in net assets		
Adjustments	(396,909)	(396,909)
Net income (losses) recognised directly in net assets	(396,909)	(396,909)
Surplus for the year	4,403,422	4,403,422
Total recognised income and expenses for the year	4,006,513	4,006,513
Total changes	4,006,513	4,006,513
Balance at 30 June 2015	161,520,487	161,520,487
Note(s)		

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Statement of Cash Flows for the Year ended 30 June 2015

	Note(s)	2015 R	2014 R
Cash flows from operating activities			
Receipts			
Rates and other income		11,861,655	(1,069,589)
Grants		100,783,006	87,421,818
Interest income		820,414	746,275
Other receipts		59,363	112,936
		<u>113,524,438</u>	<u>87,211,440</u>
Payments			
Employee costs		(45,330,885)	(48,466,028)
Suppliers		(40,949,262)	(29,929,249)
Finance costs		(1,501,326)	(629,312)
Impairment of assets		(10,515,064)	4,998
		<u>(98,296,537)</u>	<u>(79,019,591)</u>
Net cash flows from operating activities	31	<u>15,227,901</u>	<u>8,191,849</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(22,315,174)	(31,318,658)
Proceeds from sale of property, plant and equipment	10	-	234,079
Purchase of other intangible assets	11	(64,745)	(388,909)
Prior year adjustments	10&11	-	(946,248)
Net cash flows from investing activities		<u>(22,379,919)</u>	<u>(32,419,736)</u>
Cash flows from financing activities			
Finance lease payments		(1,350,747)	8,462,309
Other cash item		48,049	-
Net cash flows from financing activities		<u>(1,302,698)</u>	<u>8,462,309</u>
Net increase/(decrease) in cash and cash equivalents		<u>(8,454,716)</u>	<u>(15,765,578)</u>
Cash and cash equivalents at the beginning of the year		8,618,347	24,383,925
Cash and cash equivalents at the end of the year	8	<u>163,631</u>	<u>8,618,347</u>

11

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**Budget on Accrual Basis**

	Original budget	Budget Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
REVENUE						
REVENUE FROM EXCHANGE TRANSACTIONS						
Service charges	540,000	(70,000)	470,000	535,518	66,618	
Rental of facilities and equipment	25,296	-	25,296	131,424	106,128	See AppendixE
Interest received (trading)	-	1,500,000	1,500,000	2,436,854	936,854	See AppendixE
Agency services	240,000	-	240,000	334,015	94,015	See AppendixE
Licences and permits	1,629,360	-	1,629,360	1,675,561	46,201	
Other revenue	10,177,250	(3,702,047)	6,475,203	208,518	(6,266,685)	See AppendixE
Interest received - investment	1,500,000	-	1,500,000	820,414	(679,586)	See AppendixE
Total revenue from exchange transactions	14,111,906	(2,272,047)	11,839,859	6,142,304	(5,697,555)	
REVENUE FROM NON- EXCHANGE TRANSACTIONS						
TAXATION REVENUE						
Property rates	27,709,708	(15,303,049)	12,406,659	10,721,838	(1,684,821)	
Government grants and subsidies	75,676,750	-	75,676,750	106,300,775	30,624,025	See AppendixE
TRANSFER REVENUE						
Fines, Penalties and Forfeits	1,440,000	-	1,440,000	146,941	(1,293,059)	See AppendixE
Other transfer revenue	-	-	-	59,363	59,363	See AppendixE
Total revenue from non- exchange transactions	104,826,468	(15,303,049)	89,523,409	117,228,917	27,705,608	
Total revenue	118,938,364	(17,675,096)	101,363,268	123,371,221	22,007,953	
EXPENDITURE						
Personnel	(43,821,706)	2,254,791	(41,566,915)	(44,968,112)	(3,401,197)	
Remuneration of councillors	(7,265,419)	(802,016)	(8,067,435)	(8,169,214)	(101,779)	
Depreciation and amortisation	(8,853,475)	200,000	(8,653,475)	(20,065,022)	(11,411,547)	See AppendixE
Finance costs	-	-	-	(1,501,326)	(1,501,326)	
Debt impairment	(6,633,647)	-	(6,633,647)	(12,668,222)	(6,034,575)	See AppendixE
Repairs and maintenance	(4,755,000)	1,368,700	(3,386,300)	(957,132)	2,429,168	See AppendixE
General Expenses	(43,131,065)	9,857,590	(33,273,475)	(30,638,769)	2,634,706	See AppendixE
Total expenditure	(114,460,312)	12,379,065	(101,581,247)	(118,967,797)	(17,386,550)	
Surplus/(Deficit)	4,478,052	(4,696,031)	(217,979)	4,403,424	4,621,403	

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Original budget	Budget Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
ASSETS						
CURRENT ASSETS						
Inventories	-	-	-	268,800	268,800	
Operating lease asset	-	-	-	27,047	27,047	
Receivables from Non-Exchange Transactions	60,000,000	-	60,000,000	15,529,835	(44,470,165)	
VAT receivable	-	-	-	8,514,819	8,514,819	
Cash and Cash Equivalents	7,000,000	-	7,000,000	163,631	(6,836,369)	
	67,000,000	-	67,000,000	24,504,132	(42,495,868)	
NON-CURRENT ASSETS						
Investment Property	6,000,000	-	6,000,000	37,976,900	31,976,900	
Property, Plant and Equipment	264,706,000	-	264,706,000	146,434,011	(118,271,989)	
Intangible Assets	1,500,000	-	1,500,000	965,517	(534,483)	
Heritage Assets	-	-	-	2	2	
	272,206,000	-	272,206,000	185,376,430	(86,829,570)	
Total Assets	339,206,000	-	339,206,000	209,880,562	(129,325,438)	
LIABILITIES						
CURRENT LIABILITIES						
Finance Lease Obligation	-	-	-	4,121,498	4,121,498	
Payables from Exchange Transactions	3,500,000	-	3,500,000	33,117,516	29,617,516	
Payables from Non-Exchange Transactions	-	-	-	2,235,375	2,235,375	
	3,500,000	-	3,500,000	39,527,674	36,027,674	
NON-CURRENT LIABILITIES						
Finance Lease Obligation Provisions	-	-	-	3,175,357	3,175,357	
	24,000,000	-	24,000,000	2,490,811	(21,509,189)	
	24,000,000	-	24,000,000	5,666,168	(18,333,832)	
Total Liabilities	27,500,000	-	27,500,000	45,193,842	17,693,842	
NET ASSETS	311,706,000	-	311,706,000	164,686,720	(147,019,280)	
NET ASSETS						
Accumulated Surplus	311,706,000	-	311,706,000	181,318,460	(130,387,540)	

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**Budget on Cash Basis**

	Original budget	Budget Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
RECEIPTS						
Cash receipts from Ratepayers, Government and others	118,938,000	(8,793,000)	110,145,000	122,605,889	12,460,889	
Interest income	1,500,000	(500,000)	1,000,000	820,853	(179,147)	
	120,438,000	(9,293,000)	111,145,000	123,426,742	12,281,742	
PAYMENTS						
Employee costs	(43,821,706)	2,254,791	(41,566,915)	(52,129,092)	(10,562,177)	
Suppliers	(55,151,483)	(41,690,737)	(96,842,220)	(49,911,878)	46,930,342	
Finance costs	-	-	-	(1,499,539)	(1,499,539)	
	(98,973,189)	(39,435,946)	(138,409,135)	(103,540,509)	34,868,626	
Net cash flows from operating activities	21,464,811	(48,728,946)	(27,264,135)	19,886,233	47,150,368	
Cash flows from investing activities						
Purchase of property, plant and equipment	(27,165,000)	(6,314,000)	(33,479,000)	(26,920,572)	6,558,428	
Proceeds from sale of property, plant and equipment	800,000	-	800,000	-	(800,000)	
Purchase of other intangible assets	-	-	-	(64,745)	(64,745)	
Net cash flows from investing activities	(26,365,000)	(6,314,000)	(32,679,000)	(26,985,317)	5,693,683	
Cash flows from financing activities						
Finance lease payments	-	-	-	(1,350,747)	(1,350,747)	
Net increase/(decrease) in cash and cash equivalents	(4,900,189)	(55,042,946)	(59,943,135)	(8,449,831)	51,493,304	
Cash and cash equivalents at the beginning of the year	7,000,000	18,000,000	25,000,000	8,618,348	(16,381,652)	
Cash and cash equivalents at the end of the year	2,099,811	(37,042,946)	(34,943,135)	168,517	35,111,652	

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act No.56 of 2003.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act No.56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below:

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded off to the nearest Rand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated based on the grading of category of debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amounts.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the notes for Provisions.

1.4 Investment Property

Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services, or
- administrative purposes, or
- sale in the ordinary course of operations. Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial recognition.

ACCOUNTING POLICIES

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service the property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial recognition investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, Plant and Equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include all costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.



NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Property, plant and equipment is depreciated on a straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except land which is carried at cost

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	10 - 15 years
Furniture and fixtures	5 - 7 years
Motor vehicles	7 years
Office equipment	5 - 7 years
IT equipment	5 years
Infrastructure	
◦ Roads - Paved	30 years
◦ Roads - Graded	7 years
◦ Electricity	20 years
Other property, plant and equipment	5 years
Security	5 years
Landfill sites	69 - 98 years
Water tanks	5 years

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical existence. An asset is identifiable if it either:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost /.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality's statement of financial position.

A financial asset is:

- cash;
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivables - Exchange Transactions
Receivables - Non-Exchange Transactions
Cash and Cash Equivalents

Category

Financial asset measured at fair value
Financial asset measured at fair value
Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Payables from Exchange Transactions
Payables from Non-Exchange Transactions

Category

Financial liabilities measured at fair value
Financial liabilities measured at fair value

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition at fair value.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Receivables from Exchange Transactions

Trade and other receivables are measured at fair value.

Payables from Exchange Transactions

Trade and other payables are initially measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call accounts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are subsequently measured at fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus's Statement of Financial Performance.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Presentation

Interest relating to a financial instrument or a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Leases of property, plant and equipment where the municipality substantially assumes the risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position on the nature of the asset.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for services rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the Municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange.

Fines are economic benefits or service potential received or receivable by Municipality, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

- in full at the transaction date even if there is an uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of

economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

Subsequent measurement

The entity assesses the collectability of the revenue and recognises an impairment loss where appropriate. The municipality uses estimates to determine the amount of revenue that it is entitled to collect. The impairment is recognised as an expense in the Statement of Financial Performance.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

ACCOUNTING POLICIES

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.25 Valued Added Tax (VAT)

The Municipality accounts for VAT on accrual basis but pays over to / claims from SARS on a payment basis.

1.26 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrances of liabilities that result in decreases in net assets. An expense is recognised in the municipality's Statement of Financial Performance when, and only when, the following criteria are satisfied:

- The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note; and
- All expenditure has been dealt with in terms of the above definition and recognition criteria.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk electricity;
- Contracted services - included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, *inter alia*, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
3. INVENTORIES		
Land to be transferred	268,800	268,800
Inventory comprises of land on which RDP houses are constructed and are awaiting to be transferred to the beneficiaries. These properties were previously disclosed as Investment Properties. A register of these properties is available for inspection.		
Current assets:		
The operating lease asset is as a result of straight-lining of lease instalment over a the lease period. The lease is for Land and buildings.		
4. OPERATING LEASE ASSET (ACCRUAL)		
Minimum lease instalments due:		
- within one year	137,647	83,965
- Later than 1 year and not later than 5 years	473,546	367,667
- Later than 5 years	1,371,985	1,471,033
	1,983,178	1,922,665
Current assets	27,047	5,370
5. RECIEVABLES FROM EXCHANGE TRANSACTIONS		
Gross balances		
Refuse	1,258,875	1,182,816
Rent	30,178	14,953
Interest	4,171,412	2,788,283
	5,460,465	3,986,052
Less: Allowance for impairment		
Refuse	(639,071)	(588,671)
Rent	(15,320)	(7,442)
Interest	(2,117,629)	(1,387,689)
	(2,772,020)	(1,983,802)
Net balance		
Refuse	619,803	594,145
Rent	14,858	7,511
Interest on overdue accounts	2,053,783	1,400,594
	2,688,444	2,002,250
Refuse		
Current	41,559	40,686
30 days	38,344	33,686
60 days	23,713	27,572
90 days	33,455	26,398
120 days	28,233	21,311
Over 150 days	1,093,570	1,033,163
	1,258,874	1,182,816

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
Housing rental		
Current	5,285	4,887
30 days	5,285	1,262
60 days	900	900
90 days	900	900
120 days	900	900
Over 150 days	16,908	6,104
	30,178	14,953
Reconciliation of allowance for impairment		
Balance at beginning of the year	10,514,046	10,034,068
Contributions to allowance	12,668,222	10,514,046
Reversal of allowance	(10,514,046)	(10,034,068)
	12,668,222	10,514,046

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
Summary of debtors by customer classification		
Residential	141,705	228,946
Current	68,803	142,322
30 days	103,074	125,410
60 days	87,601	83,348
90 days	125,136	199,708
120 days	5,011,237	4,692,424
Over 150 days	5,537,556	5,472,158
	(4,683,724)	(4,471,367)
	853,832	1,000,791
Less: Allowance for impairment		
Commerce and Industry	110,114	119,770
Current	55,903	106,050
30 days	(102,845)	77,956
60 days	70,130	57,949
90 days	61,329	94,690
120 days	2,256,460	1,711,003
Over 150 days	2,451,091	2,167,418
	(1,416,378)	141,705
	1,034,713	2,309,123
Less: Allowance for impairment		
Government	111,524	21,708
Current	114,673	87,536
30 days	84,728	44,129
60 days	44,128	3,249
90 days	102,647	206,223
120 days	8,985,952	7,267,800
Over 150 days	9,443,652	7,630,645
Rental		5,258
Current		1,633
30 days	(4,280)	1,272
60 days	291,133	994
90 days	200,813	1,797
120 days	3,683,747	31,737
Over 150 days	4,171,413	42,691
	(37,022)	(30,968)
	4,134,391	11,723
Less: Allowance for impairment		
Total debtors past due but not impaired	90,572	87,536
30 days	84,572	70,958
60 days	(33,695)	3,249
90 days	100,969	206,223
120 days	8,946,702	7,267,800
Over 150 days	9,189,120	7,635,766

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
Interest		
Current	-	85,421
30 days	-	170,167
60 days	(4,280)	168,203
120 days	291,133	485,786
Over 150 days	3,884,559	1,878,706
	4,171,412	2,788,283
Other		
Current	362,355	106,026
30 days	328,903	117,679
60 days	312,342	123,676
90 days	327,307	57,747
120 days	145,787	212,649
Over 150 days	6,918,984	5,168,358
Subtotal	8,395,678	5,786,135
	(6,586,072)	(4,895,915)
	1,809,606	890,220
6. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Property Rates	19,494,034	17,139,823
Property rates Impairment	(9,896,202)	(8,530,244)
Other	2,249,360	1,748,970
	11,847,192	10,358,549
Ageing: Property Rates		
Current	658,667	347,312
30 days	603,948	244,631
60 days	1,043,633	198,543
90 days	28,763	175,587
120 days	123,433	195,179
150 days	150,178	238,009
180 days	16,885,411	15,740,562
	19,494,034	17,139,823
Debtors		
Balance net of credit balances	24,687,448	20,031,093
Gross up of credit balances	1,027,160	1,520,091
Total after removing credit balances	25,714,608	21,551,184

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

Receivables from Non-Exchange Transactions past due but not impaired

Other receivables from non-exchange transactions which are more than 30 days past due are not considered to be impaired. At 30 June 2015, R 9,188,821 (2014: R 7,635,766) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Details

1 month past due	90,572	87,536
2 months past due	84,572	70,958
Over 3 months past due	9,013,677	7,477,272
	9,188,821	7,635,766

7. VAT RECEIVABLE

VAT Receivable from (Payable to) SARS	1,357,947	(240,369)
VAT Input Provision	4,413,551	4,540,246
VAT Output Provision	(165,034)	(165,221)
VAT Control Account - SARS Assessments, and penalties	2,908,353	-
	8,514,817	4,134,656

11

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
8. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Cash on hand	823	201
Bank balances	125,834	229,373
Investments	36,974	8,388,774
	163,631	8,618,348

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
FNB - Main Account - 62022000898	125,834	232,773	9,103,042	125,834	229,373	9,086,569
FNB - Call Account Planning - 61684000098	-	99,771	98,532	-	99,771	98,532
FNB - Call Account Reserve Fund - 62035920596	1,749	66,373	67,068	1,749	66,373	67,068
FNB - Equitable Share - 62270666616	-	29,784	28,595	-	29,784	28,595
FNB - MIG Account - 62270667531	1,000	6,962,123	-	1,000	6,962,123	-
FNB - Small Town Call Account - 62352053301	-	1,092	756,274	-	1,092	756,274
FNB - MSIG Account - 62414340894	-	1,295	-	-	1,295	-
FNB - Rates Account - 62414349763	31,503	111,113	-	31,503	111,113	-
FNB - FMG - 62414356594	-	272,091	-	-	272,091	-
FNB - EPWP Call Account - 62414353293	-	(196)	-	-	(196)	-
FNB - EPWP - 62414353441	1,005	1,048	-	1,005	9,625	-
FNB - Salary Account - 62434762945	-	477,937	-	-	477,936	-
FNB - MIG Operating Account - 62437745857	-	56,279	-	-	56,279	-
FNB - MSIG Operating Account - 62437829213	-	766	-	-	766	-
FNB - FMG Operating Account - 62414358912	1,717	55,003	-	1,717	55,003	-
FNB - Fixed Deposit - 74371588665	-	-	5,221,509	-	-	5,221,509
FNB - MIG - 82270667531	-	-	6,857,143	-	-	6,857,143
Cash on Hand	-	-	-	823	201	1,942
FNB - Call Account PHP - 62048047494	-	245,719	2,250,820	-	245,719	2,250,820
Total	162,808	8,612,971	24,382,983	163,631	8,618,348	24,368,452

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

9. INVESTMENT PROPERTY

	2015		2014	
	Cost / Valuation	Carrying value	Cost / Valuation	Fair value changes Carrying value
Investment property	37,976,900	37,976,900	37,976,900	37,976,900

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	37,976,900	37,976,900

Reconciliation of investment property - 2014

	Opening balance	Adjustment	Fair value adjustments	Total
Investment property	39,088,016	(268,800)	(842,316)	37,976,900

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
9. INVESTMENT PROPERTY (continued)		
Details of property		
Erf 2220 Peddie - Land Extent 4340m2		
Land is leased to Engen Petroleum	2,888,000	2,888,000
- Cost/ Valuation		
Erf 447 Hamburg		
Portion of the Caravan Park is leased to Mrs Dorego.	2,050,000	2,050,000
- Cost/ Valuation		
Various Other		
Vacant Land	33,038,900	33,038,900
- Cost/ Valuation.		
	37,976,900	37,976,900

All the municipality's properties are held under freehold interest and no investment property has been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and the proceeds of disposal.

There are no contractual obligations on investment property.

Valuation of investment property was done by Penny Lindstrom Valuations, an independent valuer. The valuation, which conforms to international standards, was arrived at by reference to market evidence of transaction prices for similar properties. This was further reviewed in 2014 and 2015 and management concurs with the Valuer.

No impairment losses have been recognised on investment property of the municipality at the reporting date.

The properties that are rented out generate monthly income of R 8 846 per month (2014: R4 286)

There were certain properties transferred to Inventories.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R			2014 R		
10. PROPERTY, PLANT AND EQUIPMENT						
	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	7,743,600	-	7,743,600	7,743,600	-	7,743,600
Buildings	64,201,195	(9,659,058)	54,542,137	58,251,192	(7,606,542)	50,644,650
Park facilities	9,215,478	(2,018,862)	7,196,616	4,705,002	(1,567,564)	3,137,438
Infrastructure	103,926,215	(67,932,173)	35,994,042	96,354,855	(53,880,907)	42,473,948
Water and Refuse Tanks	163,435	(103,490)	59,945	147,882	(100,596)	47,286
Capital Work in Progress	23,052,526	-	23,052,526	19,491,037	-	19,491,037
Plant and machinery	15,678,121	(4,271,683)	11,406,438	15,678,121	(2,627,545)	13,050,576
Maintenance Equipment	354,848	(228,848)	126,000	355,588	(196,066)	159,522
Security Equipment	576,012	(332,932)	243,080	635,800	(324,820)	310,980
Motor vehicles	7,411,800	(2,754,204)	4,657,596	7,519,707	(2,073,056)	5,446,651
Office equipment	1,129,161	(598,280)	530,881	1,011,308	(525,765)	485,543
IT equipment	1,862,176	(1,266,200)	595,976	1,726,736	(1,258,399)	468,337
Furniture and fixtures	1,476,290	(1,191,113)	285,177	2,051,439	(1,633,008)	418,431
Minor assets	1,483,945	(1,483,945)	-	-	-	-
Total	238,274,802	(91,840,788)	146,434,014	215,672,267	(71,794,268)	143,877,999

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairments	Adjustments to Opening balances	Total
Land	7,743,600	-	-	-	-	-	-	7,743,600
Buildings	50,644,650	-	5,983,254	-	(2,058,028)	(7,740)	-	54,542,136
Park facilities	3,137,438	-	3,330,948	-	(439,300)	-	1,167,529	7,196,615
Infrastructure	42,473,948	-	7,493,487	-	(13,973,393)	-	-	35,994,042
Other equipment	47,286	24,687	-	-	(12,028)	-	-	59,945
Capital Work in Progress	19,491,037	24,762,632	(16,787,689)	-	-	-	(4,413,454)	23,052,526
Plant and machinery	13,050,576	-	-	-	(1,491,381)	(152,757)	-	11,406,438
Maintenance equipment	159,522	-	-	(1,841)	(31,681)	-	-	126,000
Security equipment	310,980	-	-	-	(67,900)	-	-	243,080
Motor vehicles	5,446,652	-	-	-	(746,610)	(42,446)	-	4,657,598
Office equipment	485,543	192,732	-	1,974	(149,368)	-	-	530,881
IT equipment	468,337	312,814	-	22,254	(379,869)	-	172,439	595,975
Furniture and fixtures	418,431	11,087	-	-	(144,341)	-	-	285,177
Minor Assets	-	84,708	-	(22,387)	(82,321)	-	-	-
	143,877,999	25,388,660	-	-	(19,556,220)	(202,943)	(3,073,486)	146,434,014

Land and buildings with a total cost of R 4130 700 and R 8777 700 (carrying amounts of R 4130 700 and R7011 160) respectively, has been derecognised as a result of the municipality realising that they do not have control over these assets. In addition, the buildings were derecognised as there were erroneously included in the municipalities assets.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

10. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Depreciation	Prior period Adjustments	Total
Land	11,965,700	-	-	-	-	(4,222,100)	7,743,800
Buildings	53,798,583	45,000	-	6,154,936	(1,888,289)	(7,465,580)	50,644,650
Park facilities	3,428,966	-	-	-	(291,528)	-	3,137,438
Infrastructure	42,008,400	128,508	-	9,340,912	(12,140,657)	3,136,785	42,473,948
Water Tanks	47,700	29,000	-	-	(29,564)	150	47,286
Capital Work in Progress	9,404,197	25,697,244	-	(15,610,404)	-	-	19,491,037
Plant and machinery	2,913,844	11,280,698	(37,886)	-	(1,106,080)	-	13,050,576
Maintenance equipment	211,193	-	(14,939)	-	(36,551)	(181)	159,522
Security equipment	71,249	317,142	-	-	(54,164)	(24,497)	310,980
Motor vehicles	4,733,712	2,021,275	(546,043)	1,250	(762,292)	-	5,446,652
Office equipment	111,795	500,749	(2,371)	-	(125,044)	414	485,543
IT equipment	804,498	315,892	(12,421)	110,650	(552,812)	(197,470)	468,337
Furniture and fixtures	932,607	170,462	(1,793)	-	(270,669)	(412,178)	418,431
	130,432,444	40,505,970	(615,453)	(2,656)	(17,257,650)	(9,184,655)	143,877,999

Pledged as security

included in Plant and Machinery are leased assets with a carrying amount of R 9 494 587 (2014 R 10 622 657). The leased assets are held as security by the financier.

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

11. INTANGIBLE ASSETS

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and implementation	1,569,514	(603,997)	965,517	1,504,769	(298,135)	1,206,634

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	1,206,634	64,745	(305,862)	965,517

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	1,097,262	388,909	(279,537)	1,206,634

Other Information

The municipality amortises all its intangible assets and none of these is regarded as having indefinite useful lives. The useful lives of the intangible assets remain unchanged from the previous year.

No impairment losses have been recognised on the intangible assets of the municipality at the reporting date.

12. HERITAGE ASSETS

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	2	-	2	2	-	2

All the municipality's heritage assets are held under freehold interest and no Heritage Assets have been pledged as security for any liabilities of the Municipality.

The Heritage Assets comprise a Memorial site and a Fingo Milk Tree. These are not income generating assets and are shown on the face of the financial statements at a nominal amount of R2.

There are no restrictions on any of the Heritage Assets of the Municipality.

No impairment losses have been recognised on the Heritage Assets of the Municipality at the reporting date.

The municipality has two heritage sites; 1. The Fingo Milkwood tree and the Dick King Memorial site. These have been valued at R1, as the cost of valuing the asset would far outway the benefits derived. The assets are non income generating.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
13. FINANCE LEASE OBLIGATION		
Minimum lease payments due		
- within one year	5,082,222	4,124,817
- in second to fifth year inclusive	3,388,150	6,752,196
	8,470,372	10,877,013
less: future finance charges	(1,173,517)	(2,229,411)
Present value of minimum lease payments	7,296,855	8,647,602
Present value of minimum lease payments due		
- within one year	4,121,498	2,830,880
- in second to fifth year inclusive	3,175,357	5,816,722
	7,296,855	8,647,602
Non-current liabilities	3,175,357	5,816,722
Current liabilities	4,121,498	2,830,880
	7,296,855	8,647,602

14. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	31,167,579	27,686,751
Accrued bonus	1,050,097	838,540
Accrued leave pay	2,483,282	1,998,070
Retentions	588,593	1,648,135
	35,289,551	32,171,496

Included in trade and other payables is a balance for Amathole amounting to R 20 712 806.02.

15. PAYABLE FROM NON-EXCHANGE TRANSACTIONS

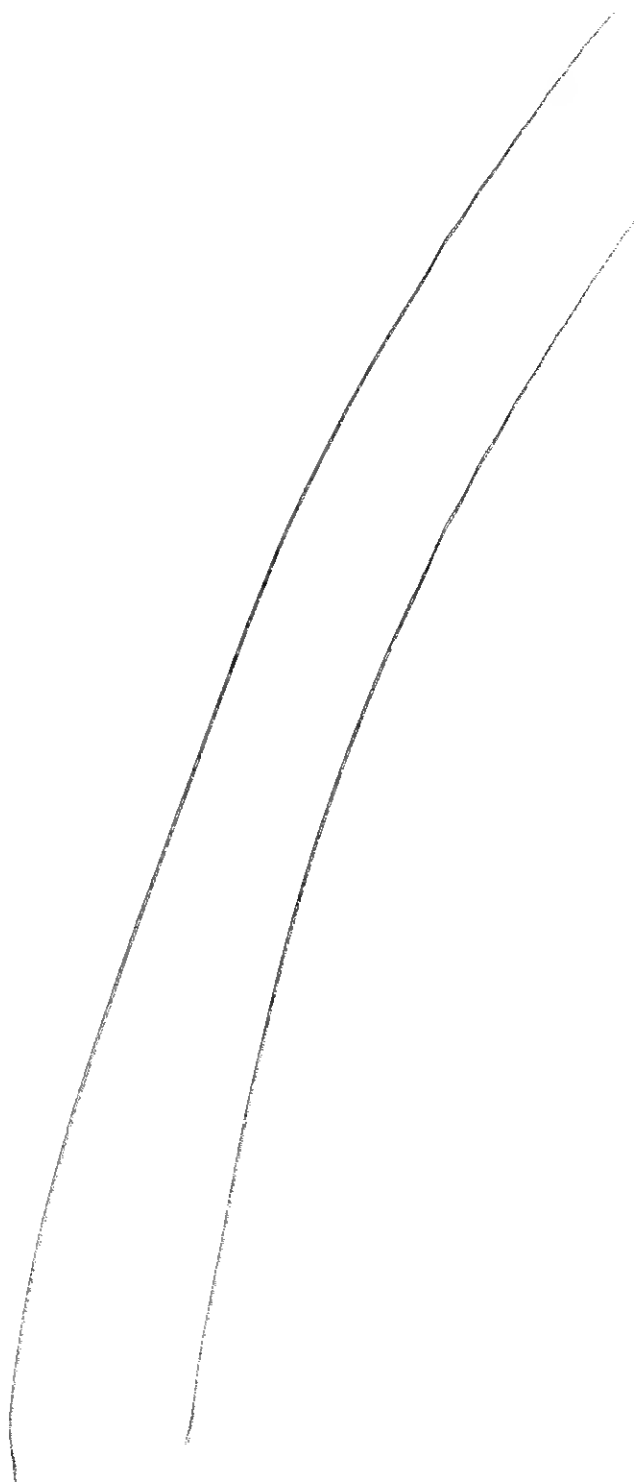
Unallocated deposit	1,000,100	1,000,100
Transfer from Receivables with credit balances	1,235,275	1,520,091
	2,235,375	2,520,191

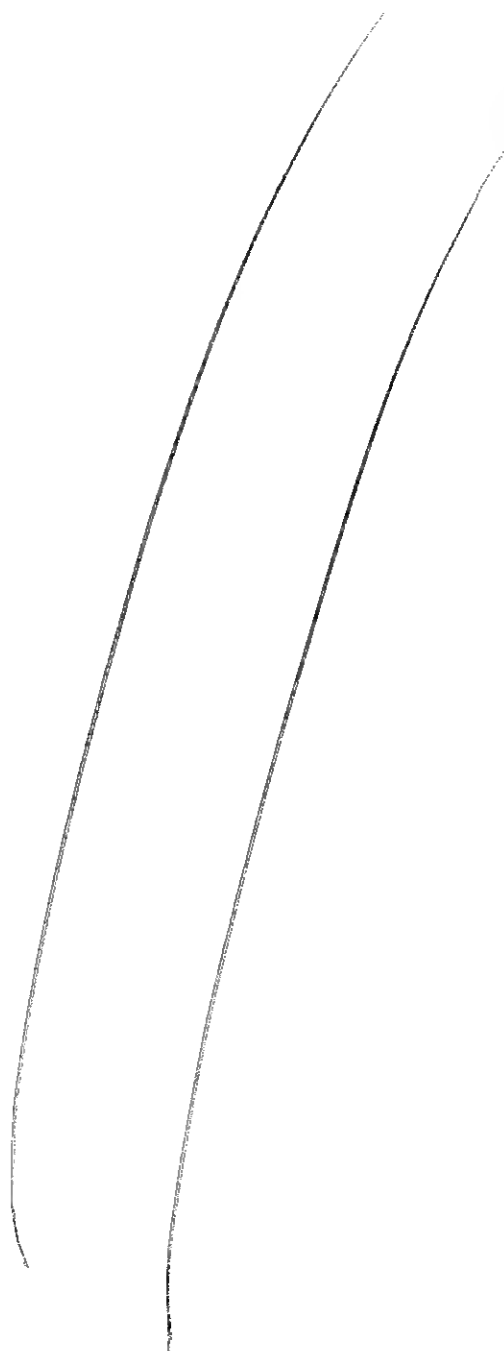
Unallocated deposit refers to funds which the Municipality received in the 2012/13 financial period but could not allocate as the source of the funds nor their purpose could not be established. To date, the purpose of the source of the funds has not been ascertained although the source was found to be the Department of Roads.

16. UNSPENT CONDITIONAL GRANTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)		5,571,055
Library Grant	53,286	-
	53,286	5,571,055





NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

17. PROVISIONS

Reconciliation of provisions - 2015

Provision for rehabilitation of land fill sites
Provision for long service awards

Opening Balance	Additions	Utilised during the year	Actuarial loss/ (Gain)	Change in discount factor	Adjustment to opening liability	Total
178,466	-	-	-	3,345	-	181,811
1,846,724	458,000	(278,000)	(191,000)	-	473,276	2,309,000
2,025,190	458,000	(278,000)	(191,000)	3,345	473,276	2,490,811

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

17. PROVISIONS (continued)

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Provision for rehabilitation of land fill sites	175,382	3,084	-	-	-	178,466
Provisions for long service awards	1,500,724	97,000	(135,000)	249,000	135,000	1,846,724
	1,676,106	100,084	(135,000)	249,000	135,000	2,025,190

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation. The amount for the provision was adjusted retrospectively in accordance with the report produced by qualified engineers from the Department of Local Government.

Employee benefit cost provision

The long-service award is payable after every 5,10,15,20,25 years of continuous service. The provision is an estimate of the amounts likely to be paid based on an actuarial valuation performed at the reporting date.

18. SERVICE CHARGES

Refuse removal	535,518	526,078
----------------	---------	---------

19. RENTAL OF FACILITIES AND EQUIPMENT

Garages and parking

Rental income - Site (Garage)

53,415	40,050
--------	--------

Facilities and equipment

Rental of facility

78,009	60,848
--------	--------

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
19. RENTAL OF FACILITIES AND EQUIPMENT (continued)		
	131,424	100,898

Some of the offices were not occupied during the year ended 30 June 2014.

At the end of the financial year, the Properties were generating income amounting to R8 846 (2014: R4 286).

20. OTHER REVENUE

Tender fees	119,954	92,256
Sundry income	63,125	109,497
Building plan fees	25,439	-
	208,518	201,753

Sundry revenue includes income from Building plan fees disposal of sites, photocopies, etc.

21. PROPERTY RATES

Rates Receivable

Gross property rates	12,932,176	12,077,198
Less: Rebates	(2,210,339)	(1,612,018)
	10,721,837	10,465,180

Valuations

Residential	320,508,301	320,508,301
Commercial	84,489,000	84,489,000
State	228,507,387	228,507,387
Municipal	84,174,808	84,174,808
Small holdings and farms	46,010,000	46,010,000
Place Of Worship	2,396,000	2,396,000
Farms non Agr	13,711,801	13,711,801
Vacant Land	7,817,718	7,817,718
Game/ Hunting	6,300,000	6,300,000
	793,915,015	793,915,015

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates applied to property valuations to determine assessment rates were established by the Council on various usage categories as per the Municipality's Rates Policy. These rate tariffs were published and can be inspected at the Municipality's registered address. Rebates of 43% (2014: 43%) are granted to residential and state property owners.

The new general valuation will be implemented on 01 July 2017.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
22. GOVERNMENT GRANTS		
Operating grants		
Equitable share	71,805,000	64,005,000
Expanded Public Works Programme (EPWP)	1,000,000	1,864,696
Municipal Infrastructure Grant (MIG)	27,454,055	27,755,054
Small Town Revitalisation Grant	-	350,000
Local Economic Development Grant (LED)	-	677,603
Financial Management Grant (FMG)	1,800,000	1,650,000
Municipal Systems Improvement Grant (MSIG)	934,000	890,000
National Sport and Recreation Grant	3,161,006	-
Library Grant	146,714	-
	106,300,775	97,192,353
	106,300,775	97,192,354

Equitable Share

In terms of Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

Expanded Public Works Programme (EPWP)

Balance unspent at beginning of year	-	864,696
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,864,696)
	-	-

The grant was received from National Roads and Public Works.

The grant was used for stipends for unemployed youths.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	5,571,055	14,326,109
Current-year receipts	22,755,000	19,000,000
Conditions met - transferred to revenue	(27,454,055)	(27,755,054)
Withheld by National Treasury	(872,000)	-
	-	5,571,055

The grant was received from National Treasury.

The grant was used for construction of community halls and extension of access roads.

Small Town Revitalisation Programme

Current-year receipts	-	350,000
Conditions met - transferred to revenue	-	(350,000)
	-	-

The grant was received from Provincial COGTA.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
22. GOVERNMENT GRANTS (continued)		
The grant was used to support the revitalisation of the town.		
Financial Management Grant (FMG)		
Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
	-	-
The grant was received from National Treasury.		
This grant was used to pay stipends for Financial Management Interns and Budget and Treasury Office related expenditure.		
Local Economic Development (LED)		
Balance unspent at beginning of year	-	327,603
Current-year receipts	-	350,000
Conditions met - transferred to revenue	-	(677,603)
	-	-
The grant was received from Provincial COGTA.		
These grants were used to support local economic development activities.		
Municipal Systems Improvement Grant (MSIG)		
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
	-	-
The grant was received from Provincial Co-operative Governance and Traditional Affairs.		
The grants were used to pay public participation activities and the maintenance of systems.		
Library Grant		
Current-year receipts	200,000	-
Conditions met - transferred to revenue	(146,714)	-
	53,286	-
The grant was received from the Department of Sport, Recreation, Arts and Culture.		
This grant was used to support the maintenance of the library.		
National Sport and recreation grant		
Current-year receipts	3,161,006	-
Conditions met - transferred to revenue	(3,161,006)	-
	-	-

The Grant was received from National Sports and Recreation for the building of Sportsfields for communities..

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
23. EMPLOYEE RELATED COSTS		
Acting allowances	1,746,045	1,936,592
Annual Bonus	2,237,015	1,529,425
Cell phone allowance	247,507	178,360
UIF	236,454	225,396
Basic Salaries and Wages	30,875,993	28,933,552
Housing benefits and allowances	40,152	34,416
Piece Work	-	67,384
Medical Aid Contributions	2,108,785	1,720,616
Pension Fund Contributions	4,170,670	3,181,901
Long service bonus	311,470	429,000
SALGA Levies	15,584	12,266
Overtime	232,274	222,466
Redemption of Leave	838,295	358,775
Shift Allowance	-	47,759
SDL	381,930	357,012
Travelling Allowances	1,525,938	1,228,118
	44,968,112	40,463,034

The amounts below have been included in the above note.

Remuneration of Municipal Manager

Basic Salary	589,357	640,684
Travelling Allowance	182,836	53,191
UIF	1,041	297
Backpay	-	9,498
Medical Aid	-	4,000
Subsistence and Travel	-	1,453
SDL	7,722	6,542
	780,956	715,665

The Municipal Manager's contract was terminated in December 2014 and a new Municipal Manager was employed on 11 June 2015. The benefits disclosed above exclude Acting Allowances.

Remuneration of Chief Finance Officer

Basic Salary	358,000	386,149
Travelling Allowance	120,000	73,150
Subsistence and Travel	1,680	-
UIF	1,190	1,041
Cellphone Allowance	19,200	3,658
SDL	5,745	6,024
Annual Leave	-	149,019
Back pay	-	7,974
Other	124,332	137,338
	630,147	764,353

The Chief Finance Officer (CFO) was appointed in November 2014. The benefits reflected on the note above excludes that of the then Acting CFO.

Remuneration of Executive Manager Community Services

Basic Salary	-	397,310
Travelling Allowance	-	62,520

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
23. EMPLOYEE RELATED COSTS (continued)		
UIF	-	1,041
Cellphone Allowance	-	3,126
SDL	-	5,702
Term Leave	-	111,764
Other	-	(1,391)
	-	580,072

The Municipality has been without an Executive Manager for Community Services for the full financial year. The Manager resigned in January 2014.

Remuneration of Executive Manager Corporate Services

Basic Salary	954,190	633,464
Travelling	-	120,000
Contributions to UIF, Medical and Pension Funds	15,702	-
Cellphone Allowances	-	6,000
	969,892	759,464

Remuneration of Executive Manager Technical Services

Basic Salary	178,000	175,226
Travelling Allowances	48,000	-
Pension	46,694	-
UIF	595	-
Medical Aid	24,000	10,500
SDL	2,871	-
	300,160	185,726

The Technical Services Director was appointed in March 2015 and the benefits disclosed above exclude Acting Allowances

24. REMUNERATION OF COUNCILLORS

Mayor	742,963	702,294
Mayoral Committee Members	1,571,400	1,216,284
Speaker	599,264	566,729
Councillors	3,025,726	3,050,012
Travelling allowances	857,961	900,455
Councillors' Pension, and Medical Aid Contributions	79,602	807,951
Other Allowances	1,292,298	396,496
	8,169,214	7,640,221

The remuneration of Councillors is based on the upper limit set by the Government Gazette.

In-kind benefits

The Mayor and the Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties and a driver.

The Mayor and the Speaker, each have the use of separate Council owned vehicles for official duties.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
25. DEPRECIATION AND AMORTISATION		
Property, Plant and Equipment	19,759,159	17,257,649
Intangible assets	305,862	279,537
	20,065,021	17,537,186
26. FINANCE COSTS		
Other interest paid	1,501,326	629,312
27. DEBT IMPAIRMENT		
Contributions to debt impairment provision	12,668,222	10,514,045
28. REPAIRS AND MAINTENANCE		
Repairs and maintenance - Infrastructure	49,847	1,175,922
Repairs and maintenance - Furniture	-	77,846
Repairs and maintenance - Motor vehicles	582,067	278,683
Repairs and maintenance - Buildings	91,675	410,049
Repairs and maintenance - Tools & Equipment	12,887	50,040
Repairs and maintenance - Electricity Equipment	-	281,834
Repairs and maintenance - Office Equipment	2,992	51,143
Repairs and maintenance - Plant and Machinery	-	1,335,335
Repairs and maintenance - Other	217,664	125,719
	957,132	3,766,572
29. CONTRACTED SERVICES		
Security Services	-	1,315,747
Contracted Services include amounts spent on Security Services provided in the period ended 30 June 2014. This service has not been procured in the period ended 30 June 2015 as the Municipality is using internal security		

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
30. GENERAL EXPENSES		
Accommodation Expenses	1,589,780	1,271,037
Advertising	565,036	719,864
Agriculture	609,709	920,709
Audit Committee Expenses	340,958	515,610
Audit Fees	2,205,149	2,959,703
Bank Charges	77,047	136,203
Books and Publications	72,929	96,217
Computer Expenses	117,096	314,237
Conferences and Seminars	95,255	223,045
Consultation and Professional Fees	4,454,256	6,522,900
Consumables	186,103	82,706
Electricity	2,717,387	1,979,098
Employee Assistance Programme	125,454	38,451
Entertainment	98,497	112,309
Financial Recovery Plan and Strategy	29,294	497,671
Fuel and Oil	1,258,085	1,197,752
Health and Safety Equipment	694,668	1,805,206
IDP Reviewal	580,000	1,047,380
Legal Expenses	1,202,113	1,952,974
Life Saviour Hire	260,302	162,822
Motor Vehicle Expenses	162,465	114,407
Other Expenses	1,278,181	1,151,228
Printing and Stationery	360,336	354,921
Programmes	2,054,237	3,481,146
Refuse	142,920	131,834
Royalties and License Fees	524,296	243,608
SPU	710,165	480,901
Subscriptions and Membership Fees	396,500	1,006,006
Telephone	704,805	1,077,179
Tourism Development	297,785	491,698
Training	693,894	651,049
Travel -Local	444,704	301,090
Uniforms	304,203	385,946
Valuation Costs	-	302,632
Water Municipal Use	5,285,159	5,882,635
	30,636,768	30,612,174

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
31. CASH FLOWS FROM OPERATING ACTIVITIES		
Surplus (deficit)	4,403,422	(7,486,871)
Adjustments for:		
Depreciation and amortisation	20,065,022	17,537,186
Loss on sale of assets	-	381,374
Fair value adjustments	-	66,200
Provisions	465,621	356,868
Debt impairment	(2,154,177)	10,514,045
Movements in operating lease assets and accruals	(21,677)	(5,370)
Movements in provisions	(465,621)	(356,868)
Finance cost	-	-
Other cash item		
Receivables from exchange transactions	-	(9,875,864)
Receivables from non-exchange transactions	-	(8,595,790)
Payables from Exchange Transactions	2,833,243	14,354,755
VAT	(4,380,183)	(927,280)
Unspent Conditional Grants	(5,517,769)	(9,770,536)
	15,227,901	8,191,849

32. COMMITMENTS

Authorised capital expenditure

Already contracted for

- Property, plant and equipment

8,565,774 14,018,616

This committed expenditure relates to infrastructure and will be financed by Municipal Infrastructure Grant.

33. CONTINGENCIES

Mbelani vs Ngqushwa Local Municipality - A dispute of unfair labour practice was lodged by Ms. V. Mbelani with the Labour Court. The matter was referred to M. Ntyesu Attorneys. Should the municipality loses the case it may be liable for damages and Attorney cost.

Mbelani vs Ngqushwa Local Municipality - The municipality was sued jointly together with the Bargaining Council by Ms. V Mbelani for unfair dismissal. The municipality is potentially liable to attorney costs.

Ngqushwa vs Famarama - The municipality has a disagreement with Famarama over unpaid invoices. Management is of the opinion that should the law suit be successful, the municipality is likely to pay damages and legal fees.

Contingent liabilities

The Table below summarises the potential financial impact of the law suits.

	Amount (R)
V. Mbelani Vs Ngqushwa Local Municipality (Unfair labour practice)	350,000
V. Mbelani Vs Ngqushwa Local Municipality (Unfair dismissal - Review condonation)	200,000
Ngqushwa Local Municipality vs Mata V and Jodwana T (Alleged unfair suspension)	100,000
Ngqushwa Local Municipality vs Famarama (Unpaid invoice)	50,500
	700,500

Contingent assets

The municipality expects to recover some of the funds which were lost to members of staff. Management is not in a position to estimate the extent of the recovery. However, the municipality expects to get the maximum of R 200 000 from the insurance.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2015
R

2014
R

34. PRIOR PERIOD ERRORS

Property, Plant and Equipment were incorrectly classified as expenses, and had to be capitalised. Land and buildings not belonging to the Municipality were adjusted out of the Property, plant and equipment. The Municipality no longer had control over the land on which community members had allocated themselves building sites and constructed their houses. Work in Progress completed during the period had not been capitalised, this has been done retrospectively thereby affecting both Property Plant and Equipment and Depreciation.

Receivables from exchange and non-exchange transactions - an adjustment was done against receivables for additional rebates of 42.5% which had not been effected for customers along the Coast. This adjustment was done backdating to periods prior to 2013. Another adjustment was done to correct impairment of receivables which was understated.

Work in Progress completed during the period had not been capitalised, this has been done retrospectively thereby affecting both Property Plant and Equipment and Depreciation

Inventories - this relates to land held for transfer to the project by the Department of Housing. This land was previously carried under Ppe.

Investment Property has been adjusted to reflect Investment Properties previously recognised as Property Plant and Equipment. Investment property - land not belonging to the Municipality was adjusted out of Investment Property.

Recognition of Operating Lease assets previously omitted in error.

Finance Lease Obligations - this is reclassification of finance leases for reporting purposes which had not been done correctly previously.

Payables from exchange transactions - the adjustments includes adjustments for the Amathole Water liability.

Payables from non - exchange transactions - this adjustment included reclassification of liabilities from payables from exchange transactions and from revenue (R1000 100 whose source was unknown).

Realization of Grant income that had been understated in error

Unspent conditional grants - unspent grants had been understated previously.

This adjustment was done to reallocate the amount received from the Department of Roads but had no known purpose. The amount was reallocated to liabilities.

The adjustments included some reallocations from Employee related costs to Remuneration of Councillors as well as adjustments for understatement

Remuneration of councillors was adjusted for misallocations between Employee related costs and Remuneration of Councillors. Adjustments also included correction of overstatement.

Depreciation relating to buildings not belonging to the Municipality was adjusted out of the total depreciation.

Adjustments were made to interest on leases

Debt impairment had been understated following a miscalculation.

This was a reclassification from general expenses of expenditure on contracted services for separate disclosure.

This was a reclassification from general expenses of expenditure on contracted services for separate disclosure.

This was a reclassification from general expenses of expenditure on contracted services for separate disclosure.

Adjustments resulted from finance leases .

The correction of the error(s) results in adjustments as follows:

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

34. PRIOR PERIOD ERRORS (continued)

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

			2015 R	2014 R	
34. PRIOR PERIOD ERRORS (continued)					
		Previously stated	Reclassification	Correction of error	Restated
Statement of Financial Position					
Current Assets					
Receivables from non-exchange transactions	6	11,897,254	-	(1,538,705)	10,358,549
Vat receivables	7	4,134,657	-	-	4,134,657
Receivables from exchange transactions	5	2,007,945	-	(5,695)	2,002,250
Cash and cash equivalents	8	8,618,348	-	-	8,618,348
Inventories	3	-	-	268,800	268,800
Operating Lease Assets		-	-	5,370	5,370
		26,658,204	-	(1,275,600)	25,387,974
Non-current assets					
Investment property	9	38,170,500	-	(193,600)	37,976,900
Property, plant and equipment	10	152,768,233	-	(8,890,234)	143,877,999
Intangible assets	11	1,206,634	-	-	1,206,634
		192,145,367	-	(9,083,834)	183,061,533
Current liabilities					
Finance Laase Obligations	13	185,293	-	2,645,587	2,830,880
Payables from exchange transaction	14	33,309,717	-	(1,138,223)	32,171,494
Payablas from non - exchange	15	-	-	2,520,191	2,520,191
Unspent conditional grants	16	5,394,277	-	176,777	5,571,054
		38,889,287	-	4,204,332	43,093,619
Non-current liabilities					
Non-current provisions	17	2,025,190	-	-	2,025,190
Financa Lease Obligation	13	8,576,256	-	(2,759,534)	5,816,722
Net assets					
Accumulated surplus		169,312,838	-	(11,798,864)	157,513,974
		169,312,838	-	(11,798,864)	157,513,974
Statement of Financial Performance					
Revenue					
Rental of facilities and equipment	19	91,846	-	9,052	100,898
Government Grants		97,192,313	-	41	97,192,354
Other Transfer Revenue		1,000,100	-	(887,164)	112,936
Expenditure					
Employee related costs	23	(39,871,544)	-	(591,490)	(40,463,034)
Remuneration of councillors	24	(7,828,561)	-	188,340	(7,640,221)
Depreciation and amortisation	25	(17,831,609)	-	294,423	(17,537,186)
Finance costs	26	(617,260)	-	(12,052)	(629,312)
Debt impairment		(10,483,865)	-	(30,180)	(10,514,045)
Repairs and maintenance		(3,786,572)	-	-	(3,786,572)
Contracted services	29	-	-	(1,315,747)	(1,315,747)
General expenses	30	(40,182,473)	-	1,570,295	(38,612,178)
		(120,601,884)	-	103,589	(120,498,295)
Cash Flows Statement					
Cash flow from operating activities					
Net cash flows from operating activities		8,077,900	-	113,949	8,191,849
Cash flow from investing activities					

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

				2015 R	2014 R
34. PRIOR PERIOD ERRORS (continued)					
Purchase of property plant and equipment	10	(31,204,709)	-	(113,949)	(31,318,658)
Proceeds from sale of fixed assets		234,079	-	-	234,079
Purchase of Intangible Assets		(388,909)	-	-	(388,909)
Cash flows from financing activities					
Finance lease payments		8,504,911	-	-	8,504,911
Net cash and cash equivalents					
cash and cash equivalents at the end of the year	8	8,618,348	-	-	8,618,348

35. RISK MANAGEMENT

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and grant receipts.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality's interest bearing assets are included under cash and cash equivalents.

The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

At year end financial assets exposed to interest rate risk were as follows:

Cash and cash equivalents - R168 517, (2014 - R8 618 348)

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 6.

Any change in interest rates will not have any impact on the accumulated surplus of the municipality.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

35. RISK MANAGEMENT (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, and accounts receivable. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Accounts receivable comprise a widespread customer base. Management evaluated credit risk relating to these customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the group of customers, taking into account their financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2015	2014
Receivables from non-exchange transactions	11,847,192	10,358,549
Receivable from exchange transactions	2,688,444	2,002,250
Value Added Tax	8,514,817	4,134,656
Cash and cash equivalents	163,631	8,618,347
Financial Lease Obligation	7,296,855	8,647,602
Provisions	2,490,811	2,025,190
Payable from Exchange Transactions	38,497,227	32,171,494
Payable from Non Exchange Transactions	2,235,375	2,520,191
Unspent Conditional Grants	53,285	5,571,054

36. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the municipality will continue to receive grants from National and Provincial Governments as well as continue to levy rates and charge for refuse collection. The proceeds are presumed to be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

37. EVENTS AFTER THE REPORTING DATE

No material events were identified after the reporting date.

38. UNAUTHORISED EXPENDITURE

Reconciliation of unauthorised expenditure

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
38. UNAUTHORISED EXPENDITURE (continued)		
Details of Unauthorised Expenditure		
Interest	-	288,566
Depreciation / amortisation	11,411,547	13,069,370
Debt impairment	6,034,575	-
Hire purchase facilities for the purchase of fleet plant and equipment	-	4,577,674
Employee costs	3,401,197	8,381,884
Remuneration of Councillors	101,779	673,221
Finance cost	1,501,326	-
	22,450,424	26,990,715

	2015	2014
Opening balance as previously reported	28,887,536	17,505,786
Written off by council for previous years	-	(11,031,291)
Restated Balance	28,887,536	6,474,495
Unauthorised expenditure for the year	23,299,693	26,990,715
Written off as per council	(849,289)	(4,577,874)
	51,337,960	28,887,536

The above irregular matters, and unauthorised expenditure have been referred to council for consideration and to MPAC for further investigation.

39. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	-	5,990,495
Fruitless and wasteful expenditure for the year	34,831	70,310
Amount written off by council for prior year written off prior 2012/2013	-	(5,990,495)
Approved by council for write off during the year	-	(70,310)
Written off during the year by council	(34,831)	-

Details of Fruitless and Wasteful Expenditure

Interest on audit fees	22,765	70,310
Interest charged by Telkom	359	-
Interest charged by Prodiba	92	-
Interest charged by Eskom	11,615	-
	34,831	70,310

The above incidents have been taken to council for their consideration.

40. IRREGULAR EXPENDITURE

	2015	2014
Opening balance as previously reported	28,148,415	26,389,343
Adjustment due to error	-	28,148,415
Amount written off by council	-	(26,389,343)
Adjusted opening balance	28,148,415	28,148,415
Add: Irregular Expenditure - current year	28,524,133	-
	56,672,548	28,148,415

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
40. IRREGULAR EXPENDITURE (continued)		
Details of irregular expenditure – current year		
Fuel Expenses	Disciplinary steps taken/criminal proceedings Reported to Council and MPAC and currently under Investigation	1,102,724
Hiring of Plant & Machinery	Reported to Council and MPAC and currently under Investigation	6,564,126
IDP training for councillors and officials	Reported to Council and MPAC and currently under Investigation	192,000
Installation of surveillance cameras	Reported to Council and MPAC and currently under Investigation	269,460
		8,128,310
41. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT		
Contributions to organised local government - SALGA		
Current year subscription / fee	15,584	12,266
Amount paid - current year	(15,584)	(12,288)
	-	-
Audit fees		
Opening balance	695,082	2,124,975
Current year subscription / fee	2,205,149	2,959,703
Amount paid - current year	(2,011,335)	(4,389,596)
	888,896	695,082
PAYE, SDL & UIF		
Opening balance	3,489,271	-
Current Year P.A.Y.E	7,980,301	3,625,342
Current year - U.I.F	236,454	225,396
Current Year SDL	381,930	357,012
Paid - current year	(11,397,993)	(718,479)
	689,963	3,489,271
Pension and Medical Aid Deductions		
Current year subscription / fee - Pension	4,170,669	3,181,901
Amount paid - current year - Medical Aid	2,108,784	1,720,616
Amount paid - current year	(6,279,453)	(4,902,517)
	-	-
VAT		
VAT receivable	8,514,819	4,134,657

VAT output payables and VAT input receivables are accounted for on an Accrual Basis, however VAT claimed or payable to SARs is on a cash basis, based on VAT 201s submitted. VAT returns for the Year have been submitted to SARS.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

	2015 R	2014 R
--	-----------	-----------

41. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT (continued)

Councillors' arrear consumer accounts

No councillors had balances in excess of 90 Days in the year under review.

NGQUSHWA LOCAL MUNICIPALITY

(Registration number EC126)

Annual Financial Statements for the year ended 30 June 2015

SUPPLEMENTARY INFORMATION

1. SCM DEVIATION REGISTER

TRANSACTION DESCRIPTION	NAME OF SERVICE PROVIDER	CIRCUMSTANCES	FINALIZATION DATE	AMOUNT	APPROVED/ NOT APPROVED
Replacement of front disk brake pads and replacement	Ronnies Motors EL	Service and repairs	15 March 2015	8,992 Y	
Subdivision of portion Erf 93 and identification of pegs	Ilizwe town and regional planners	Only one document was recieved	07 April 2015	45,600 Y	
fitting and repositioning number plate	TFM manufacturing	Service and repairs	13 April 2015	3,146 Y	
Repairs left hand side suspension and clutch repairs	Meyers motors	Service and repairs	13 April 2015	22,770 Y	
Repairs of community service mitsubishi Triton registration number	Ronnies Motors EL	Service and repairs	14 April 2015	3,748 Y	
Servicing of hoovers	Nulfisk-advance (PTY) LTD	Service and repairs	11 March 2015	5,812 Y	
procurement of legal services	Arno Strydom inc.	legal services	27 April 2015	24,400 Y	
Brick laying training for 4 ppl for a period of 45 days	Border Kei Training Trust	only 1 document was received	07 April 2015	48,780 Y	
repairs of a double cab HBT 013 EC	Meyers motors	Service and repairs	15 March 2015	10,222 Y	
				<u>173,470</u>	